FA Module 4 Current ratio & quick ratio practice exam questions

covering balance sheet entries, non-current liabilities, shareholders' equity, credit sales & purchases, current liabilities, current assets, inventory, accounts payable, accounts receivable,
quick assets

(The attached PDF file has better formatting.)

On December 30, a firm's balance sheet shows

! non-current liabilities = 246
! shareholders' equity = 364
! total assets = 732

On December 30, the firm's current ratio = 2.69 and its quick ratio = 2.26

On December 31, the firm sells goods on credit (30 days net) for 160 at a gross profit margin of 44%, and it buys inventory for 80 on credit (60 days net).

No other accounting entries occur on December 31.

Question 4.2: Current liabilities

What are current liabilities on December 30?

Answer 4.2: 732 – 246 – 364 = 122

(total assets = current liabilities + non-current liabilities + shareholders' equity
⇛ current liabilities = total assets – non-current liabilities – shareholders' equity)

Question 4.3: Current assets

What are current assets on December 30?

Answer 4.3: 122 × 2.69 = 328.18

(current ratio = current assets / current liabilities
⇛ current assets = current liabilities × current ratio)

Question 4.4: Quick assets

What are quick assets on December 30?

Answer 4.4: 122 × 2.26 = 275.72

(quick ratio = quick assets / current liabilities
⇛ quick assets = current liabilities × quick ratio)

Question 4.5: Inventory

What is inventory on December 30?

Answer 4.5: 328.18 – 275.72 = 52.46

(quick assets = current assets – inventory
⇛ inventory = current assets – quick assets)

Question 4.6: Current liabilities

What are current liabilities on December 31?

Answer 4.6: 122 + 80 = 202

(Accounts payable from purchase of inventory is a contra-liability, so add change in accounts payable from purchase of inventory to the contra-liabilities on December 30.)

Question 4.7: Inventory

What is the change in inventory on December 31?

Answer 4.7: 80 – 160 × (1 – 44%) = (9.60)

(Add inventory bought of 80 and subtract inventory sold, which is goods sold of 160 × (1 – gross profit margin of 44%). )

Question 4.8: Current assets

What are current assets on December 31?

Answer 4.8: 328.18 + 160 – 9.60 = 478.58

(Add change in accounts receivable of 160 and change in inventory of -9.60)

Question 4.9: Inventory

What is inventory on December 31?

Answer 4.9: 52.46 – 9.60 = 42.86

(Add change in inventory of -9.60)

Question 4.10: Quick assets

What are quick assets on December 31?

Answer 4.10: 478.58 – 42.86 = 435.72

(quick assets = current assets – inventory)

Question 4.11: Current ratio

What is the current ratio on December 31?

Answer 4.11: 478.58 / 202 = 2.369

(current ratio = current assets / current liabilities)

Question 4.12: Quick ratio

What is the quick ratio on December 31?

Answer 4.12: 435.72 / 202 = 2.157

(quick ratio = quick assets / current liabilities)